

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Seattle (City) presents this Management's Discussion and Analysis (MD&A) of its financial activities for the fiscal year ended December 31, 2005. This discussion and analysis focuses on significant financial issues, provides an overview of the City's financial activity, highlights significant changes in the City's financial position, and identifies material variances between the approved budget and actual spending.

The City encourages readers to consider the information presented here in conjunction with additional information provided in its letter of transmittal.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2005 the assets of the City of Seattle exceeded its liabilities by \$2.966 billion. Net assets invested in capital assets (net of depreciation and related debt) account for 79.1 percent of this amount (\$2.344 billion). The remaining net assets of \$621.9 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$295.1 million (11.1 percent) during the fiscal year. The governmental net assets increased by \$203.9 million (11.2 percent) over the amount reported in 2004. Business-type net assets increased by \$91.2 million (10.8 percent). The business-type increase included net income for the Water Utility of \$3.7 million, \$81.9 million for City Light, \$1.3 million for the Drainage and Wastewater Utility and \$2.7 million for the non-major funds. The balance of the offset is the result of the consolidation of the Internal Service Funds' activities related to the Enterprise Funds.
- At the close of 2005 the City's governmental funds reported a combined ending fund balance of \$421.0 million, an increase of \$88.3 million (26.6 percent). Of the major funds, the fund balance of the General Fund increased \$71.5 million, the Transportation Fund increased by \$1.6 million, and the General Bond Interest and Redemption Fund increased by \$0.2 million. The fund balance increases were offset by a decrease of \$3.4 million in the Low-Income Housing Fund. The fund balances of the nonmajor governmental funds increased by \$18.5 million. The overall increase reflects the vastly improved regional economic conditions in 2005. Strong growth in employment and personal income added significantly to the City's tax revenues. Approximately \$139.2 million (33.1 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2005 the unreserved fund balance for the General Fund was \$107.8 million or 19.7 percent of total General Fund expenditures of \$546.3 million. The General Fund's unreserved fund balance increased by approximately \$67.2 million from the prior year's amount of \$40.6 million, again reflecting the improved economic situation in 2005.
- The City's total outstanding bonded debt decreased by \$130.7 million (3.7 percent) to \$3.443 billion during the current fiscal year. General obligation debt decreased by \$42.0 million in 2005. While there was a new general obligation bond issue of \$129.5 million, redemptions totaled \$171.5 million, including refunding of \$70.1 million and defeasance of \$9.1 million in the period. During the year, revenue bonds also decreased by \$88.7 million. The only revenue bonds issued in 2005 were for the Water Utility in the amount of \$138.0 million plus an additional draw of \$4.0 million from the revenue bond anticipation notes for Solid Waste. Total revenue bond retirements amounted to \$230.8 million, which included the refunding of \$133.6 million of Water revenue bonds.
- Revenues from local tax sources, including property, sales, business excise, miscellaneous other taxes, penalties and interest on taxes, increased by \$68.6 million to \$800.0 million, a 9.4 percent increase over 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City of Seattle's basic financial statements which consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad overview of the City's finances in a manner similar to that of private-sector business.

The **Statement of Net Assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the City's financial health.

The **Statement of Activities** presents changes in net assets during the current reporting period. All changes to net assets are reported as of the date of the underlying event, rather than when cash is received or disbursed. Thus, some reported revenues and expenses result in cash flows in future periods. The Statement of Activities focuses on both the gross and the net cost of the various activities of the City. The report summarizes and simplifies analysis of the revenues and expenses of the various City activities and the degree to which activities are subsidized by general revenues.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government activities, judicial activities, public safety, physical environment, transportation, economic environment, health and human services, and culture and recreation. The business-type activities of the City include an electric utility, a water utility, a waste disposal utility, a sewer and drainage utility, construction and land use operations, and parking facilities.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories of City funds: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds. These statements, however, focus on cash and other assets that can readily be converted to available resources, as well as any balances remaining at year-end. Such information is useful in determining what financial resources are available in the near future to finance the City's programs.

Readers may better understand the long-term impact of the government's near-term financing decisions by comparing the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison.

The City maintains numerous governmental funds that are organized according to type (general, special revenue, debt service, capital projects, and permanent funds). Information for the four major governmental funds is presented separately in the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances; information for the nonmajor funds is presented in the aggregate. The City's major governmental funds are the General Fund, Transportation Fund, General Bond Interest and Redemption Fund, and Low-Income Housing Fund. Information for each of the nonmajor governmental funds is provided in the combining statements in this report.

Proprietary funds account for services for which the City charges outside customers and internal City departments. Proprietary funds provide the same information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** report the same functions presented as business-type activities in the government-wide financial statements. The proprietary funds financial statements provide separate information for the Seattle City Light Fund, Water Fund, and the Drainage and Wastewater Fund, which are considered to be major enterprise funds. Information for nonmajor enterprise funds is presented in the aggregate. Information for each of the nonmajor enterprise funds is provided in the combining statements in this report.
- **Internal service funds** report activities that provide supplies and services for various City programs and activities. The City uses internal service funds to account for its fleets and facilities services, information technology services, and engineering services. Because these services largely benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Information for each of the internal service funds is provided in the combining statements in this report.

Proprietary funds statements follow the governmental funds statements in this report.

Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support City programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The City's fiduciary funds include the Employees' Retirement Fund, the Firemen's Pension Fund, the Police Relief and Pension Fund, the S. L. Denny Private-Purpose Trust Fund, and various agency funds.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Required Supplementary Information

This report also contains other required supplementary information (RSI) on budgetary comparisons for major governmental funds and pension plan funding.

Combining Statements

The combining statements referred to earlier in connection with the nonmajor funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Table A-1 is a condensed version of the Statement of Net Assets for the City of Seattle. At the close of the current fiscal year the City's total assets exceeded liabilities by \$2.966 billion.

Statement of Net Assets

Table A-1 **CONDENSED STATEMENT OF NET ASSETS**
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
Current and Other Assets	\$ 929,893	\$ 809,703	\$ 929,918	\$ 1,000,201	\$ 1,859,811	\$ 1,809,904
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	2,447,229	2,367,557	3,011,821	2,907,255	5,459,050	5,274,812
Total Assets	3,377,122	3,177,260	3,941,739	3,907,456	7,318,861	7,084,716
Current Liabilities	232,912	241,377	328,330	293,910	561,242	535,287
Noncurrent Liabilities	1,116,316	1,111,868	2,675,799	2,767,120	3,792,115	3,878,988
Total Liabilities	1,349,228	1,353,245	3,004,129	3,061,030	4,353,357	4,414,275
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,673,959	1,584,694	669,676	641,015	2,343,635	2,225,709
Restricted	142,509	101,325	142,774	114,795	285,283	216,120
Unrestricted (Deficit)	211,426	137,995	125,160	90,616	336,586	228,612
Total Net Assets	\$ 2,027,894	\$ 1,824,014	\$ 937,610	\$ 846,427	\$ 2,965,504	\$ 2,670,441

The largest portion of the City's net assets (79.0 percent) reflects investment of \$2.344 billion in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$285.3 million (9.6 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$336.6 million (11.4 percent), may be used to meet the government's obligation to citizens and creditors.

In 2005 unrestricted net assets for governmental activities increased by 53.2 percent from \$138.0 million in 2004 to \$211.4 million in 2005. The City began to see improvement in the local economy at the end of 2004 which continued to improve throughout 2005. The resulting increase in tax revenues boosted the total unrestricted net assets.

The net assets for the business activities increased between 2004 and 2005 from \$846.4 million to \$937.6 million. The increase in net assets is primarily due to the elimination of the amortization of \$300.0 million in excess power costs in the City Light Utility. These costs were deferred in 2001 and amortized in equal monthly amounts from 2002 through 2004.

Table A-2 **CHANGES IN NET ASSETS RESULTING FROM**
CHANGES IN REVENUES AND EXPENSES
(In Thousands)

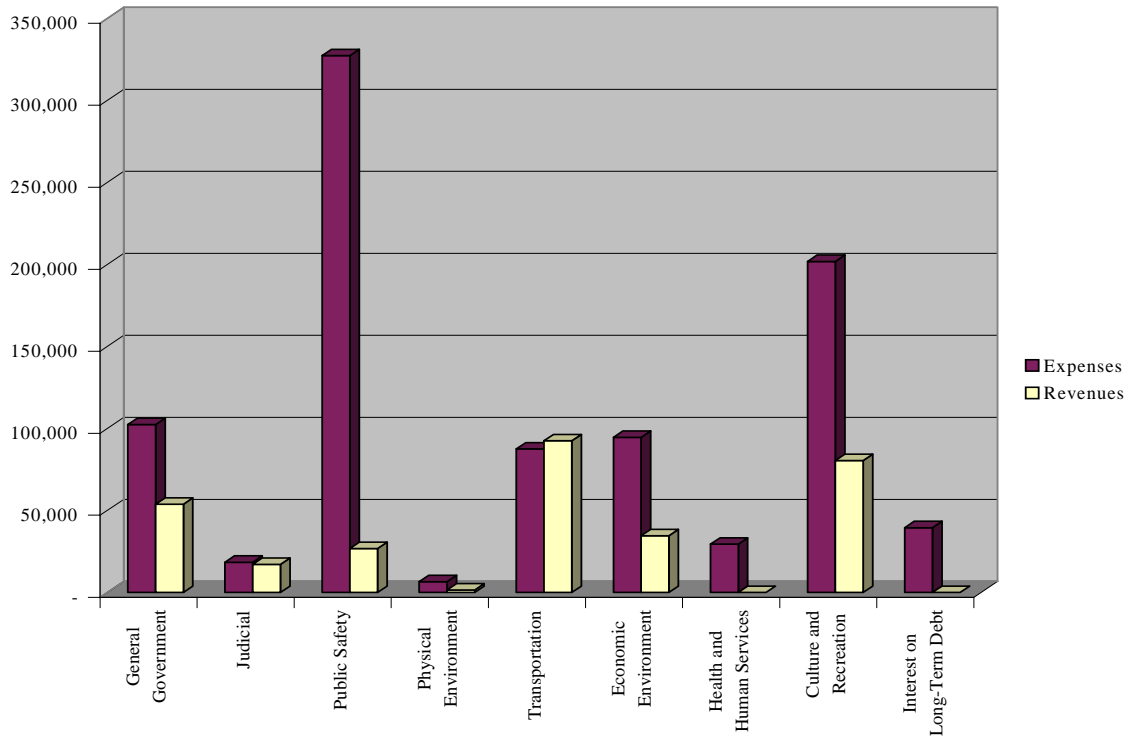
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	\$ 169,753	\$ 152,427	\$ 1,210,615	\$ 1,221,002	\$ 1,380,368	\$ 1,373,429
Operating Grants and Contributions	70,111	63,512	2,973	2,618	73,084	66,130
Capital Grants and Contributions	66,991	55,051	30,750	21,014	97,741	76,065
General Revenues						
Property Taxes	311,613	296,789	-	-	311,613	296,789
Sales Taxes	146,060	130,961	-	-	146,060	130,961
Business Taxes	280,139	253,733	-	-	280,139	253,733
Other Taxes	62,268	49,903	-	-	62,268	49,903
Other	13,209	7,662	11,249	6,369	24,458	14,031
Total Revenues	1,120,144	1,010,038	1,255,587	1,251,003	2,375,731	2,261,041
Expenses						
Governmental Activities						
General Government	102,362	104,281	-	-	102,362	104,281
Judicial	18,429	19,169	-	-	18,429	19,169
Public Safety	327,334	322,244	-	-	327,334	322,244
Physical Environment	6,614	5,530	-	-	6,614	5,530
Transportation	87,542	88,606	-	-	87,542	88,606
Economic Environment	94,616	78,455	-	-	94,616	78,455
Health and Human Services	29,470	28,376	-	-	29,470	28,376
Culture and Recreation	201,902	196,280	-	-	201,902	196,280
Interest on Long-Term Debt	39,539	41,499	-	-	39,539	41,499
Business-Type Activities						
Light	-	-	683,475	772,827	683,475	772,827
Water	-	-	148,992	127,865	148,992	127,865
Drainage and Wastewater	-	-	178,447	168,689	178,447	168,689
Solid Waste	-	-	110,044	112,920	110,044	112,920
Planning and Development	-	-	43,487	45,320	43,487	45,320
Downtown Parking Garage	-	-	8,414	8,421	8,414	8,421
Total Expenses	907,808	884,440	1,172,859	1,236,042	2,080,667	2,120,482
Excess (Deficiency) Before Transfers	212,336	125,598	82,728	14,961	295,064	140,559
Transfers	(8,456)	(9,738)	8,456	9,738	-	-
Increase in Net Assets	203,880	115,860	91,184	24,699	295,064	140,559
Net Assets - Beginning of Year	1,824,015	1,708,155	846,426	821,729	2,670,441	2,529,884
Nets Assets - End of Year	<u>\$ 2,027,895</u>	<u>\$ 1,824,015</u>	<u>\$ 937,610</u>	<u>\$ 846,428</u>	<u>\$ 2,965,505</u>	<u>\$ 2,670,443</u>

Analysis of Changes in Net Assets

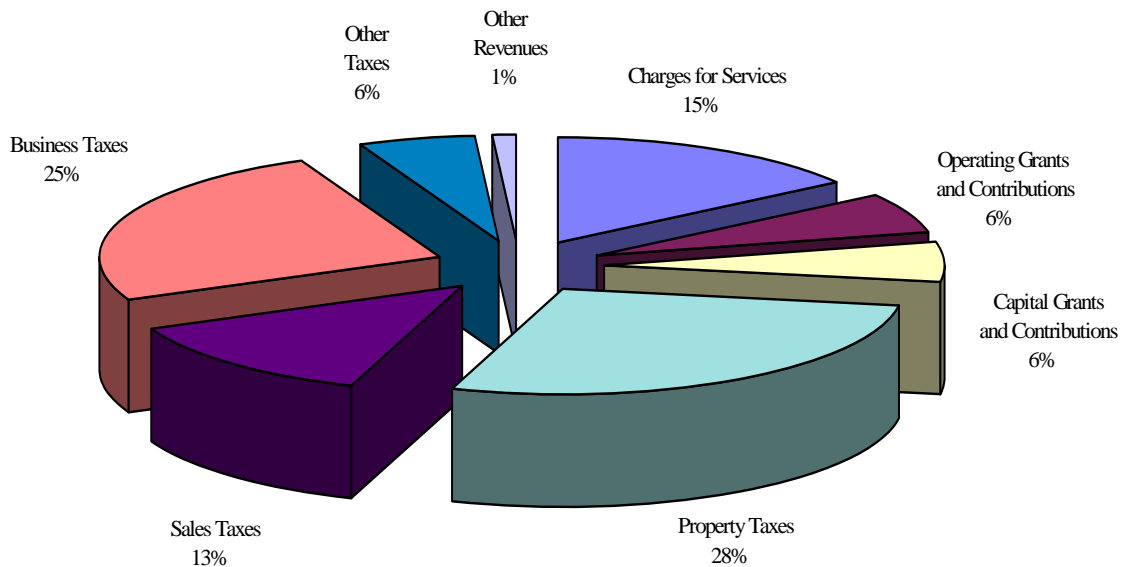
The City's total net assets increased by \$295.1 million in 2005. The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total \$1,120.1 Million

Governmental Activities. The charts on the previous page present the City's governmental expenses and revenues by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by culture and recreation, general government, economic environment, transportation, health and human services, judicial, and physical environment. General revenues such as the property, business, and sales taxes are not shown by function because they are used to support Citywide program activities. Governmental activities increased the City's net assets by \$203.9 million in 2005 compared to an increase of \$115.9 million in 2004. Key factors in the change are as follows:

In 2005 total revenues for governmental activities were \$1.1 billion, \$110.1 million or 10.9 percent higher than 2004.

Program revenue related to services increased by \$17.3 million or 11.4 percent in 2005. Charges for services went up by \$10.5 million. Much of this increase is attributed to the revenue received from Sound Transit for work performed by the Department of Transportation. Licenses and permits revenue contributed to the increase going up by \$6.4 million. The City instituted a two-tier business license fee structure beginning with licenses for 2005. Although overall revenue is expected to decline due to the change, the transition caused a delay in the mailing of license renewals. Payments that would normally have been received in 2004 were delayed until 2005. Fire department inspection fees and transportation utility cut fees increased due to higher rates. Cable franchise fees also were up for 2005. Program income and miscellaneous revenues increased by \$1.4 million while fines and forfeits offset the increases with a decrease of \$1.0 million. 2004 revenue for parking infractions was up due to an amnesty program that was implemented that year.

Grants and contributions increased by \$18.5 million compared to 2004. The Department of Transportation saw a \$16.5 million increase in grant funding for some significant projects including the Fremont Bridge, Lake City Way, Aurora Bus Rapid Transit, the continued participation in the Sound Transit implementation, Alaskan Way and Spokane Street Viaduct/Seawall, and the Mercer Corridor planning. Seattle Center grants and contributions funding was up by \$8.5 million due to a large donation from the Seattle Center Foundation for the McCaw Hall renovation and a grant from the Washington State Economic and Trade Development. Both human services and Homeland Security grant revenues increased in 2005 and donations were up at the Parks Department. These increases were offset by a \$15.9 million decrease for the Library, which completed the construction of the central library in 2004. In 2004 the Library Foundation contributed \$21.5 million.

Property taxes, the largest source of revenue supporting governmental activities, increased by \$14.8 million or 5.0 percent compared to 2004. Property tax is levied primarily on real estate owned by individuals and businesses. In 2005 the total property tax rate in Seattle was about 1.0 percent of assessed value. In addition, several voter-approved levies such as the 2000 Parks Levy, the 2003 Fire Stations Levy, and the 2004 renewal of the Families and Education Levy, support various City programs and projects. The City's General Subfund receives approximately 63.0 percent of the City's property tax revenues.

The retail sales and use (sales) tax is imposed on the sale of most goods and certain services in Seattle. The tax is collected and remitted to the state. The state provides the City with its share on a monthly basis. With the continued improvement of economy and the upswing in construction activity in 2005, sales tax revenues increased by \$15.1 million or 11.5 percent.

Business taxes are the second largest contributor to governmental revenues. The business and occupation (B&O) tax, the major business tax, is levied by the City on the gross receipts of most business activity occurring in Seattle. The City also levies a B&O tax on the gross income derived from sales of utility services within Seattle. In 2005 B&O tax revenues increased by \$26.4 million or 10.4 percent. The increase is attributed to both the improved economy and 2005 rate increases for various utility B&O taxes.

Other tax revenues increased by \$12.4 million or 24.8 percent. With the booming housing market, revenue from real estate excise taxes increased by \$12.0 million, from \$38.6 million in 2004 to \$50.6 million in 2005.

With a \$4.9 million increase, investment earnings almost doubled from \$5.4 million in 2004 to \$10.3 million in 2005. The rate of return for investments continued to rise from a low of 2.0 percent in the early part of 2004 to a high of 3.3 percent in the latter part of 2005. The average rate of return was 2.9 percent in 2005. Revenue from the sale of capital assets increased by \$0.6 million in 2005.

In 2005, total expenses for governmental activities were \$907.8 million compared to \$884.4 million in 2004, \$23.4 million or 2.6 percent higher than 2004.

General government expenses were down \$1.9 million, a 1.8 percent decline over 2004. Each year the internal service funds' net operating income/losses are allocated to the departments receiving their services. Net operating income decreases expenses while net operating losses increase expenses. Due to the allocation of the internal service funds' 2005 net operating income, general government expenses decreased by \$2.3 million. Workers compensation and claim damages went down by \$1.5 million. Staffing levels in many departments, such as the Personnel Department, the Department of Executive Administration and the Office of the City Auditor were reduced in the 2005 budget. These cost reductions were offset by increases in arbitrage expenses, depreciation, and a 2.3 percent cost of living salary rate increase.

Management's Discussion and Analysis

Public safety expenses increased by \$5.1 million, a 1.6 percent increase over 2004. In 2005, as a result of labor contract negotiations, the Police Department made retroactive salary payments for 2003 and 2004. Public safety staff also received a cost of living salary increase for 2005. In 2005 the funding for fire hydrants was shifted from the Water Fund to the General Subfund. These cost increases were offset by a decrease in costs for workers' compensation and claims.

Judicial expenses went down by \$0.7 million or 3.9 percent, mainly due to the allocation of the internal service funds' income and the decrease in workers' compensation and claims damages.

Physical environment expenses went up \$1.1 million, a 19.6 percent increase compared to 2004. In addition to cost of living increases, expenses went up because of the public toilets project which began in 2005.

Transportation expenses decreased by \$1.1million a 1.2 percent decline from 2004. The reduction is primarily due to the following factors: general liabilities, injury and judgment claims went down by \$3.5 million and expenditures were reduced by \$1.0 million due to internal service funds' income allocation. The decreases were offset by the 2.3 percent cost of living rate increase.

Economic environment expenses increased by \$16.2 million or 20.7 percent. The increase in expenses is attributed to the La Salle Pike Place Market Float Loan payment (\$7.2 million), an increase in the number of housing projects funded by the 2002 Housing Levy (\$6.3 million), and an increase in bridge lending activity (\$2.0 million).

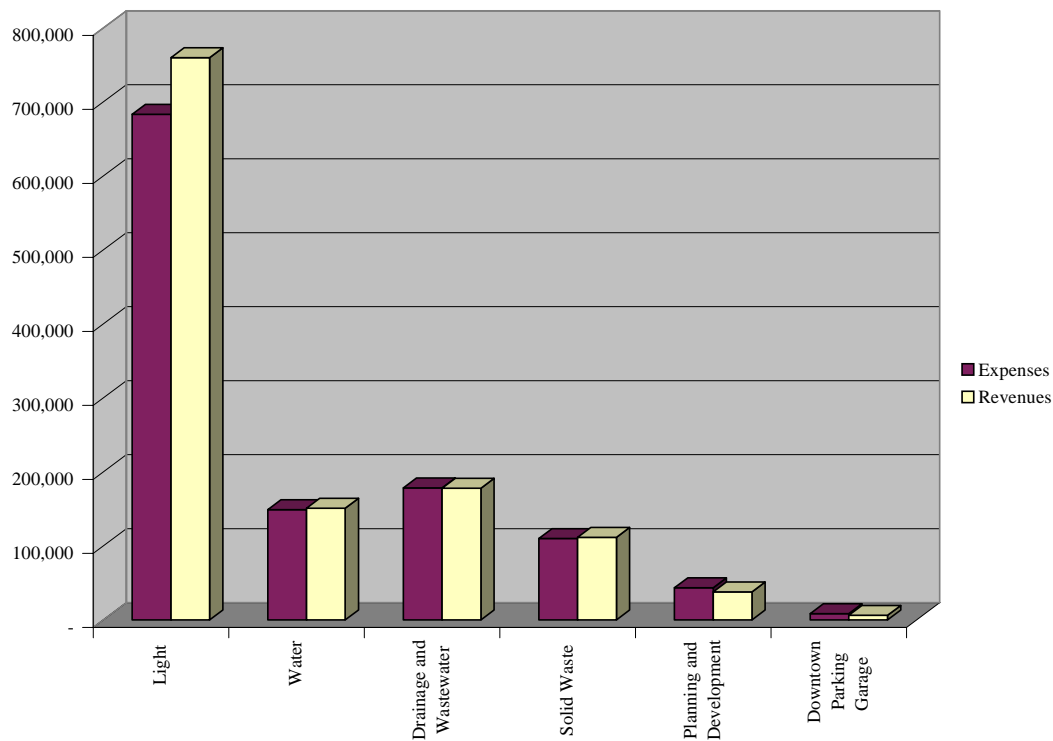
Health and human services expenses increased by \$1.1 million, mainly due to cost of living increases paid in 2005.

At \$201.9 million, culture and recreation expenses were up \$5.6 million in 2005, a 2.9 percent increase over 2004. Depreciation expense increased as a result of the construction of the main library and renovations to other library branches which were completed in 2004. The cost of living salary rate increase in 2005 also contributed to the increase.

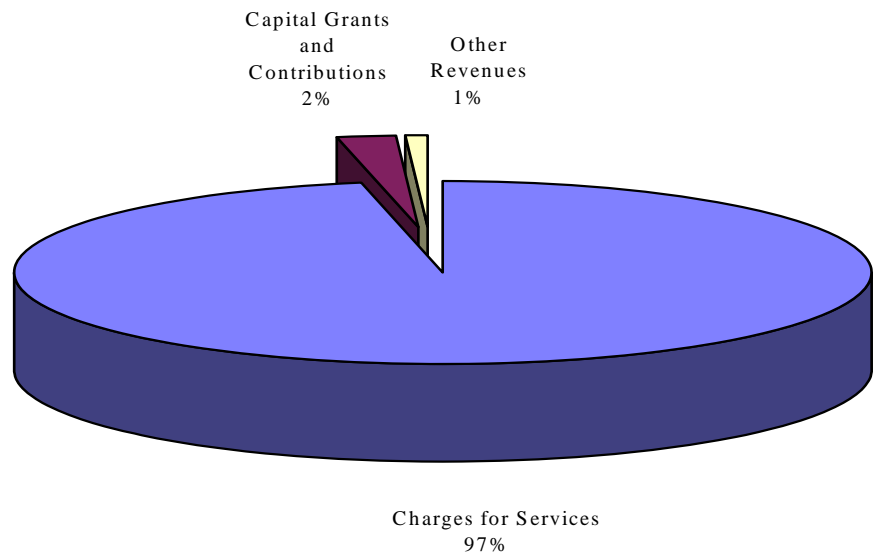
Interest on long-term debt went down by \$2.0 million or 4.7 percent as a result of a \$42.0 million decrease in general obligation debt.

Business-Type Activities

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



Total \$1,255.6 Million

Management's Discussion and Analysis

Business-Type Activities. Business-type activities increased the City's net assets by \$89.6 million to \$937.9 million, an increase of 10.6 percent. Key factors for the change are as follows:

The City Light Utility realized a net increase of \$81.9 million in net assets in 2005, an improvement of \$68.1 million compared to net income of \$13.8 million in 2004. The increase in net income was due primarily to the elimination of the amortization of \$300.0 million in excess power costs, deferred from 2001 and amortized in equal monthly payments from 2002 through 2004.

The Water Utility experienced an increase of \$3.7 million in net assets in 2005. This increase was primarily due to contributions and grant revenues received in 2005 and revenue for fire hydrant services that began effective January 1, 2005.

The Drainage and Wastewater Utility experienced a net increase of \$1.3 million in net assets in 2005. The operating revenues increased \$14.4 million or 8.9 percent due to rate increases in both wastewater and drainage. This increase was largely offset by the rise of expenses, such as wastewater treatment costs, depreciation, and taxes.

The Solid Waste Utility net assets increased \$1.9 million in 2005. This compares to a net asset increase of \$3.5 million in 2004. Operating revenues declined by approximately \$0.9 million in 2005 as a result of a reduction in garbage tonnage disposed by commercial, self-haul customers and a reduction in tonnage subject to landfill closure and City transfer fees. Operating expenses remained relatively stable compared to the prior year.

The Planning and Development Fund net assets increased by \$3.0 million. The Downtown Parking Garage Fund experienced a decrease of \$2.2 million in net assets.

FINANCIAL ANALYSIS OF CITY FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-3 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GOVERNMENTAL FUNDS
(In Thousands)

	Major Funds			
	General Fund		Transportation Fund	
	2005	2004	2005	2004
Revenues				
Taxes	\$ 659,686	\$ 602,846	\$ -	\$ -
Licenses and Permits	18,686	13,752	6,012	4,538
Grants, Shared Revenues, and Contributions	22,910	22,278	43,507	23,315
Charges for Services	54,387	50,230	30,970	20,394
Fines and Forfeits	17,023	18,135	5	3
Parking Fees and Space Rent	15,069	26,847	109	56
Program Income, Interest, and Miscellaneous Revenues	21,523	12,832	604	568
Total Revenues	809,284	746,920	81,207	48,874
Expenditures	546,333	525,715	133,103	102,410
Other Financing Sources and Uses				
Long-Term Debt	-	-	2,750	-
Sales of Capital Assets	14,301	1,922	-	-
Transfers In (Out)	(205,756)	(209,769)	50,754	52,230
Total Other Financing Sources and Uses	(191,455)	(207,847)	53,504	52,230
Fund Balances				
Reserves Legally Segregated for Future Use	82,152	69,867	11,084	9,477
Reserves Not Available for Appropriation	13,703	21,640	3	2
Unreserved	107,817	40,669	-	-
Total Fund Balances	\$ 203,672	\$ 132,176	\$ 11,087	\$ 9,479

Table A-3 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GOVERNMENTAL FUNDS (continued)
(In Thousands)

	Major Funds			
	Low-Income Housing Fund		General Bond Interest and Redemption Fund	
	2005	2004	2005	2004
Revenues				
Taxes	\$ 11,859	\$ 11,770	\$ 25,940	\$ 25,765
Licenses and Permits	-	-	-	-
Grants, Shared Revenues, and Contributions	6,409	6,175	-	-
Charges for Services	10	23	-	-
Fines and Forfeits	-	-	-	-
Parking Fees and Space Rent	25	32	8,837	5,085
Program Income, Interest, and Miscellaneous Revenues	5,201	9,551	1,029	3,309
Total Revenues	23,504	27,551	35,806	34,159
Expenditures	27,201	18,876	136,299	94,175
Other Financing Sources and Uses				
Long-Term Debt	-	-	583	3,294
Sales of Capital Assets	298	-	-	-
Transfers In (Out)	-	-	100,065	58,677
Total Other Financing Sources and Uses	298	-	100,648	61,971
Fund Balances				
Reserves Legally Segregated for Future Use	26,285	32,628	14,407	14,252
Reserves Not Available for Appropriation	-	-	-	-
Unreserved	16,948	14,004	-	-
Total Fund Balances	\$ 43,233	\$ 46,632	\$ 14,407	\$ 14,252

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2005	2004	2005	2004
Revenues				
Taxes	\$ 49,765	\$ 33,466	\$ -	\$ -
Licenses and Permits	914	738	-	-
Grants, Shared Revenues, and Contributions	43,107	56,563	2	22
Charges for Services	41,974	42,043	-	-
Fines and Forfeits	2,731	2,657	-	-
Parking Fees and Space Rent	18,233	17,451	-	-
Program Income, Interest, and Miscellaneous Revenues	30,568	4,085	21	13
Total Revenues	187,292	157,003	23	35
Expenditures	283,014	264,882	-	-
Other Financing Sources and Uses				
Long-Term Debt	-	-	-	-
Sales of Capital Assets	12,619	652	-	-
Transfers In (Out)	90,725	99,854	(3)	(25)
Total Other Financing Sources and Uses	103,344	100,506	(3)	(25)
Fund Balances				
Reserves Legally Segregated for Future Use	19,318	15,445	702	683
Reserves Not Available for Appropriation	2,871	9,157	-	-
Unreserved	14,420	4,387	-	-
Total Fund Balances	\$ 36,609	\$ 28,989	\$ 702	\$ 683

Table A-3 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GOVERNMENTAL FUNDS (continued)
(In Thousands)

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds		2005	2004
	2005	2004	2005	2004		
Revenues						
Taxes	\$ 52,678	\$ 57,526	\$ -	\$ -	\$ 799,928	\$ 731,373
Licenses and Permits	-	-	-	-	25,612	19,028
Grants, Shared Revenues, and Contributions	15,650	9,009	-	-	131,585	117,362
Charges for Services	95	-	-	-	127,436	112,690
Fines and Forfeits	-	-	-	-	19,759	20,795
Parking Fees and Space Rent	430	77	-	-	42,703	49,548
Program Income, Interest, and Miscellaneous Revenues	9,959	2,105	63	34	68,968	32,497
Total Revenues	78,812	68,717	63	34	1,215,991	1,083,293
Expenditures	93,745	119,499	107	154	1,219,802	1,125,711
Other Financing Sources and Uses						
Long-Term Debt	61,382	-	-	-	64,715	3,294
Sales of Capital Assets	-	406	-	-	27,218	2,980
Transfers In (Out)	(35,558)	(12,097)	(15)	(15)	212	(11,145)
Total Other Financing Sources and Uses	25,824	(11,691)	(15)	(15)	92,145	(4,871)
Fund Balances						
Reserves Legally Segregated for Future Use	109,050	101,296	1	31	262,999	243,679
Reserves Not Available for Appropriation	-	-	2,196	2,205	18,773	33,004
Unreserved	-	(3,138)	-	19	139,185	55,941
Total Fund Balances	\$ 109,050	\$ 98,158	\$ 2,197	\$ 2,255	\$ 420,957	\$ 332,624

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources available for spending. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance measures the City's net resources available for spending at the end of the fiscal year. Governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$421.0 million, an increase of \$88.3 million in comparison to 2004. Approximately \$122.2 million of this amount constitutes unreserved fund balance which is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for other purposes such as (1) payment on existing contracts and purchase orders, \$34.2 million; (2) funding of continuing projects and programs in future periods, \$192.2 million; (3) payment of debt service, \$33.4 million; and (4) a variety of other purposes, \$21.9 million.

Revenues for governmental funds overall totaled approximately \$1.216 billion in the fiscal year ended December 31, 2005, which represents an increase of approximately 12.2 percent from the prior fiscal year. Expenditures in governmental funds amounted to \$1.220 billion, an increase of approximately 8.4 percent during the same period. In the aggregate, expenditures for governmental funds exceeded revenues by approximately \$3.8 million.

The **General Fund** is the chief operating fund of the City. It is comprised of fourteen subfunds: General, Judgment/Claims, Arts Account, Cable Television Franchise, Cumulative Reserve, Neighborhood Matching, Development Rights, Emergency, Street Vacation Compensation, Special Employment Program, Industrial Insurance, Unemployment Compensation, Health Care, and Group Term Life Insurance. Table A-4 provides a summary of the status of the various subfunds at year-end 2005. The City Hall Subfund and the Police Support Facility Subfund were closed this past year after the City became the principal tenant in both facilities. These operations are now reported in the Fleets and Facilities Operating Fund, an internal service fund.

At the end of 2005 the total fund balance of the General Fund was \$203.7 million. Fund balance increased by \$71.5 million in 2005 compared to 2004.

Total revenues for the General Fund increased \$62.4 million, 8.3 percent higher than 2004. Tax revenues increased by \$56.8 million. As a result of the continuing economic growth in the region, new construction, the escalating value of existing real estate properties, and a utility B&O tax rate hike, collections from property taxes, sales taxes, B&O taxes, and real estate excise taxes were up in 2005.

Program income, interest, and miscellaneous revenues increased by \$8.6 million. This was mainly due to investment earnings which were higher due to rising interest rates. License and permit revenue increased by \$4.9 million in 2005. Major reasons for the increase include higher fees for Fire Department inspections, a cable franchise fee rate increase, increased revenues from the new 2004 police alarm licensing/monitoring fee, and increased revenue from City business license renewals. 2004 revenues from business license renewals were down. Due to a late change in the fee structure the penalty deadline for business license renewals was extended until February 1, 2005.

Revenues derived from charges for services increased by \$4.2 million. Much of this increase is attributed to the allocation of the cost of the financial system upgrade to other departments. The upgrade is scheduled to be implemented in July 2006. Parking fees and space rent declined \$11.7 million from the prior year. With the 2005 rate increase for parking meters and pay stations, parking revenue increased significantly. However, this was offset by the decrease in space rental income which resulted from the move of the City Hall Subfund and the Police Support Facility Subfund operations to the Fleets and Facilities Operating Fund.

General Fund expenditures increased by \$20.6 million or 3.9 percent in 2005, from \$525.7 million to \$546.3 million. In addition to a 2005 cost of living rate increase, due to salary negotiations Police Department employees received retroactive pay increases for 2003 and 2004. The final payment on the settlement of the Okeson street light case was made in 2005. The cost of fire hydrants was moved from the Water Fund to the General Fund, and the General Fund began paying for the cost of public toilets in 2005. The upgrade of the financial system also increased costs in the General Fund. The increases were offset somewhat by the move of the City Hall and Police Support Facility activity to the Fleets and Facilities Operating Fund. Also, the funding/management of the City resources for the public health services provided by King County was transferred to the Human Services Fund in 2005.

The other financing sources and uses category increased the General Fund's fund balance position in 2005 compared to 2004. Revenue from the sale of capital assets increased by \$12.4 million due to sale of the Arctic and Alaska Buildings and net transfers out were reduced by \$4.0 million.

The **Transportation Fund**, a special revenue fund, is reported as a major governmental fund for the first time in 2005. The Department of Transportation develops, maintains, and operates the transportation system inclusive of streets, bridges, ramps, retaining walls, sea walls, bike trails, street lights, and other road infrastructure. At the end of the fiscal year the fund balance increased by \$1.6 million compared to 2004. Revenues were up \$32.3 million. The majority of the revenue increase related to grants that funded capital projects, such as the Arterial Asphalt and Concrete Program, Bridge Load Rating, Bridge Painting, Hazard Mitigation Program-Areaways, and the Retaining Wall Repair and Replacement Program. Charges for services also contributed to the increase in revenues. While the Department increased the fee for utility cuts in 2005, most of the increase in this category is the result of the Department's work on the Sound Transit project.

The **Low-Income Housing Fund**, a special revenue fund and one of the major governmental funds of the City, manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for the seven-year housing levy approved by voters in 1995 and an additional seven-year levy that was approved by the voters in November 2002. At \$43.2 million, the Low-Income Housing Fund ended the year with a fund balance decrease of \$3.4 million. Revenue decreased by \$4.0 million while expenditures increased by \$8.3 million. The decrease in revenues is attributed to the reduction in program income and miscellaneous revenues. In 2004 the Low-Income Housing Fund received \$4.3 million in proceeds from the sale of development rights to Washington Mutual. The increase in expenditures is attributed mainly to the 2002 levy for very-low-income housing and multipurpose programs.

The **General Bond Interest and Redemption Fund**, a debt service fund, was classified as a major fund in 2005. Compared to 2004, expenditures in this fund increased by \$42.1 million or 44.7 percent in 2005. The increase is largely due to the 2005 pay-off of the short portion of the 2002 bonds (\$11.2 million), 2002 Series B bonds (\$20.0 million), and 2003 bonds (\$11.1 million). While there was a new general obligation bond issue of \$129.5 million, redemptions totaled \$171.5 million, including refunding of \$70.1 million and defeasance of \$9.1 million.

In 2005 the other **special revenue funds** showed a \$7.6 million or 26.3 percent increase in fund balance as a result of operations. The most significant increases occurred in the Parks and Recreation Fund (\$4.4 million), Education and Development Services Fund (\$3.6 million), and Seattle Center Fund (\$3.3 million). The Library Fund decreased by \$1.9 million while the Municipal Arts Fund and the Housing and Community Development Revenue Sharing Fund realized a nominal decline.

Total revenues for the other special revenue funds were up \$30.3 million, a 19.3 percent increase. Program income, interest and miscellaneous revenues (up \$26.5 million), and taxes (up \$16.3 million) accounted for the majority of the increase while grants, shared revenues, and contributions declined by \$13.5 million in 2005. The increase in miscellaneous revenues is

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mainly credited to the receipt of \$20.3 million from the Seattle Monorail Project and \$5.7 million in float loans received by the Housing and Community Development Revenue Sharing Fund. In 2004 the Families and Education Levy was passed. New taxes were received in the Education and Development Services Fund as a result of this levy. The decline in grants and contributions revenue is related to the completion of the construction of the new downtown library in 2004. The majority of grants and contributions received in 2004 came from the Library Foundation to support the library construction.

Expenditures increased by \$18.1 million, up 6.8 percent from 2004. Major reasons for the increase include the move of the City's cost of the public health program to the Human Services Fund and repayment to financial institutions of float loans received in the Housing and Community Development Revenue Sharing Fund. These increases were offset by a decrease in the Library Fund spending associated with the completion of the central library during the previous year.

The other financing sources and uses category increased slightly in 2005, up by \$2.8 million or 2.8 percent compared to 2004. This net increase resulted from a \$12.0 million increase in sales of capital assets offset by the decrease in net transfers in from other funds of \$9.1 million. In 2005 Seattle Center recorded the sale of parking facilities and the Parks Department received the proceeds from sale of the Roy Street property.

The fund balance in the **capital projects funds** showed a \$10.9 million or 11.1 percent increase in 2005. The most significant increases came from the 2005 Multipurpose Long-Term General Obligation Bond Fund (\$24.2 million), and the Public Safety Information Technology Fund (\$10.3 million). These were offset by a fund balance decrease in funds such as the Seattle Center and Parks Multipurpose Levy Fund and the Municipal Civic Center Fund.

Revenues for the capital projects funds went up \$10.1 million or 14.7 percent compared to 2004. Program income, interest, and miscellaneous revenues increased by \$7.8 million, primarily due to revenue received from the Seattle Public Utilities for the Joint Training Facility and improvements at the Seattle Municipal Tower. Grants, shared revenues, and contributions went up by \$6.6 million due to capital grants received from the state plus private contributors for the McCaw Hall project. These increases were offset by a decrease of \$4.8 million in tax revenue from the 1999 Seattle Center/Community Centers levy.

Expenditures for capital projects were \$25.8 million or 21.5 percent less than total expenditures in 2004. The reduction was the result of a couple of major projects. Construction of the new central library was completed and the library was opened in May 2004. The City Hall Plaza was completed in early 2005.

The 2005 fund balances of the **debt service funds** and the **permanent funds** remained at the about the same levels as 2004.

Table A-4 **REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**
GENERAL FUND SUBFUNDS
(In Thousands)

	General	Judgment/ Claims	Arts Account	Cable Television Franchise	Cumulative Reserve	Neighborhood Matching
Revenues						
Taxes	\$ 608,108	\$ -	\$ 918	\$ -	\$ 50,660	\$ -
Licenses and Permits	14,724	-	-	3,962	-	-
Grants, Shared Revenues, and Contributions	21,166	-	-	-	1,734	10
Charges for Services	43,468	10,066	-	-	(3)	-
Fines and Forfeits	17,004	20	-	-	-	-
Parking Fees and Space Rent	14,896	-	-	-	173	-
Program Income, Interest, and Miscellaneous Revenues	3,056	25	1	451	2,534	-
Total Revenues	722,422	10,111	919	4,413	55,098	10
Expenditures	504,393	5,568	442	4,774	19,754	2,990
Other Financing Sources and Uses						
Sales of Capital Assets	(3)	-	-	-	14,305	-
Transfers In (Out)	(196,131)	935	-	-	(18,183)	3,116
Total Other Financing Sources and Uses	(196,134)	935	-	-	(3,878)	3,116
Fund Balances						
Reserves Legally Segregated for Future Use	18,869	18,260	293	-	34,895	4,899
Reserves Not Available for Appropriation	2,702	-	-	-	-	-
Unreserved	33,858	-	185	1,105	29,970	553
Total Fund Balances	\$ 55,429	\$ 18,260	\$ 478	\$ 1,105	\$ 64,865	\$ 5,452

Table A-4 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GENERAL FUND SUBFUNDS (continued)
(In Thousands)

	City Hall	Development Rights	Police Support Facility	Emergency	Street Vacation Compensation	Special Employment Program
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-	-
Grants, Shared Revenues, and Contributions	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	334
Fines and Forfeits	-	-	-	-	-	-
Parking Fees and Space Rent	-	-	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	-	344	-	1	-	-
Total Revenues	-	344	-	1	-	334
Expenditures	-	-	-	350	-	281
Other Financing Sources and Uses						
Sales of Capital Assets	-	-	-	-	-	-
Transfers In (Out)	2,306	-	61	2,004	-	-
Total Other Financing Sources and Uses	2,306	-	61	2,004	-	-
Fund Balances						
Reserves Legally Segregated for Future Use	-	-	-	1,769	-	-
Reserves Not Available for Appropriation	-	-	-	11,001	-	-
Unreserved	-	(317)	-	20,613	-	157
Total Fund Balances	\$ -	\$ (317)	\$ -	\$ 33,383	\$ -	\$ 157

	Industrial Insurance	Unemployment Compensation	Health Care	Group Term Life Insurance	Total General Fund	
					2005	2004
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 659,686	\$ 602,846
Licenses and Permits	-	-	-	-	18,686	13,752
Grants, Shared Revenues, and Contributions	-	-	-	-	22,910	22,278
Charges for Services	521	-	-	-	54,386	50,230
Fines and Forfeits	-	-	-	-	17,024	18,135
Parking Fees and Space Rent	-	-	-	-	15,069	26,847
Program Income, Interest, and Miscellaneous Revenues	542	1,761	12,519	287	21,521	12,832
Total Revenues	1,063	1,761	12,519	287	809,282	746,920
Expenditures	1,438	-	6,298	45	546,333	525,715
Other Financing Sources and Uses						
Sales of Capital Assets	-	-	-	-	14,302	1,922
Transfers In (Out)	-	-	136	-	(205,756)	(209,769)
Total Other Financing Sources and Uses	-	-	136	-	(191,454)	(207,847)
Fund Balances						
Reserves Legally Segregated for Future Use	13	-	3,153	-	82,151	69,867
Reserves Not Available for Appropriation	-	-	-	-	13,703	21,640
Unreserved	4,362	3,955	13,133	243	107,817	40,669
Total Fund Balances	\$ 4,375	\$ 3,955	\$ 16,286	\$ 243	\$ 203,671	\$ 132,176

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

City Light Utility. The Utility realized net income of \$81.9 million in 2005 compared to a \$13.7 million in 2004. The increase in net income was due primarily to the elimination of the amortization of \$300.0 million in excess power costs deferred from 2001 and amortized in equal monthly payments from 2002 through 2004. Excluding the effect of the 2004 amortization, net income decreased \$31.9 million.

The effective decrease in net income was due in large part to the \$26.1 million decrease in net wholesale power sales (net of the cost of wholesale purchases). In 2005, revenue from net wholesale power sales was \$87.4 million compared to \$113.5 million for 2004. In addition, operating revenues outside of short-term power sales declined \$15.8 million while operating expenses, other than the amortization of the deferred power costs and the cost of wholesale power sales, increased by \$2.1 million. These decreases in net operating income were offset by a \$3.8 million decrease in non-operating expenses and an \$8.4 million increase in capital contributions.

Net cash provided by operating activities increased to \$253.0 million in 2005 compared to \$242.2 million in 2004, an increase of \$10.8 million. Restricted cash and investments were \$35.8 million in 2005, down from \$123.7 million in 2004. The net decrease was largely due to the liquidation of the reserve account and establishing a contingency reserve account at year-end. The operating cash balance at year-end increased from \$60.7 million in 2004 to \$141.9 million in 2005. This increase was primarily due to the receipt of \$28.9 million remaining from the bonds issued in December 2004 and \$62.0 million from the construction account and from conservation measures.

Utility plant and other capital assets were \$1.459 billion and \$1.408 billion in 2005 and 2004, respectively, a net increase of \$50.6 million. The majority of the capital asset additions were in the distribution system and general plant assets.

City Light issued \$284.9 million of improvement and revenue refunding bonds in 2004. \$215.3 million revenue bond proceeds were used to defease certain 1995A, 1996, and 1999 bonds. The remaining amount was used for construction and acquisition of capital and deferred assets. Total net revenue bonds payable were \$1.473 billion in 2005 and \$1.537 billion in 2004, a net decrease of \$64.0 million. Interest expenses were \$71.3 million in 2005 and \$73.8 million in 2004. Future debt service requirements on the subordinate lien bonds, based on 2005 end-of-year actual interest rates, range from 2.9 percent to 3.5 percent through 2021. Including long-term debt, the total liabilities were \$1.671 billion in 2005 and \$1.722 billion in 2004.

Total net assets were \$385.8 million in 2005 and \$303.9 million in 2004.

Water Utility. Net operating income of the Water Utility decreased by \$9.5 million to \$30.8 million in 2005 from \$40.3 million in 2004, mainly due to an increase in operating expenses of \$14.3 million. The increase in operating expenses is attributed to several factors: an increase in depreciation expense for assets acquired in prior years but depreciated starting in 2005, an increase in the City public utility tax rate, an increase in resource management expenses, and an increase in general and administrative expenses. The net income decreased to \$3.7 million in 2005 compared to \$17.8 million in 2004, a decrease of \$14.1 million.

Net cash provided by operating activities decreased to \$65.9 million in 2005 from \$74.3 million in 2004, a decrease of \$8.4 million. Total operating and restricted cash and investments were \$76.0 million in 2005 compared to \$124.8 million in 2004, a decrease of \$48.8 million. This decrease in cash and investments is primarily due to a decrease in dedicated investments.

Utility plant and other capital assets were \$985.2 million and \$958.0 million in 2005 and 2004, respectively, an increase of \$27.2 million. Significant capital was spent on burying the Lincoln Reservoir, installation of service meters, improvements to distribution water mains, enhancements to computer systems, and purchase of heavy equipment.

The Water Utility issued \$138.0 million of Water System Revenue Refunding Bonds in December 2005. The proceeds from the issuance were used to refund 1997 and 1996B Water System Bonds. As a consequence of the refunding, the Fund reduced total debt service requirements by \$16.2 million, resulting in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$11.4 million. Total revenue bonds payable was \$776.8 million and \$794.6 million in 2005 and 2004, respectively. Interest expenses were \$34.8 million in 2005 and \$28.4 million in 2004. The Fund must maintain adjusted net revenue of not less than 125 percent of actual annual senior lien debt service. Adjusted net revenues remaining after senior lien debt service has been paid must not be less than 125 percent of annual junior lien debt service. In 2005, adjusted net revenue was 168.0 percent of senior lien debt service, and adjusted net revenue available after senior lien debt service was 778.0 percent of junior lien debt service. Including revenue bonds payable, total liabilities were \$840.1 million and \$845.8 million in 2005 and 2004, respectively.

Total net assets were \$302.1 million in 2005 and \$298.3 million in 2004.

Drainage and Wastewater Utility. Operating income of the Utility increased to \$11.1 million in 2005 from \$9.1 million in 2004, a net increase of \$2.0 million. Operating revenues increased \$14.4 million and operating expenses increased \$12.3 million between 2005 and 2004. The Utility realized a net gain of \$1.3 million in 2005 and net loss of \$5.0 million in 2004. The increase in net income was primarily due to rate increases of 11.5 percent for wastewater and 10.2 percent for drainage.

Net cash provided by operating activities increased to \$28.3 million in 2005 from \$19.8 million in 2004. Total operating and restricted cash and investments were \$37.8 million in 2005 compared to \$64.2 million in 2004, a decrease of \$26.4 million, primarily due to a decrease in dedicated investments.

Utility plant, net of accumulated depreciation, and other capital assets increased to \$471.8 million in 2005 from \$448.7 million in 2004, an increase of \$23.1 million. Acquisitions of new assets were \$58.1 million, and retirements of existing capital assets were \$35.0 million.

The total outstanding bond liabilities were \$294.9 million in 2005 and \$301.2 million in 2004, a decrease of \$6.3 million representing payments of debt principal in 2005. Interest expenses were \$13.7 million in 2005 and \$10.8 million in 2004. Debt service coverage ratio requirements were 125 percent for both 2005 and 2004, and actual debt service coverage ratios were 273.0 percent in 2005 and 219.0 percent in 2004. Total liabilities, including revenue bonds, were \$338.4 million in 2005 and \$336.8 million in 2004.

Total net assets were \$244.5 million in 2005 and \$243.2 million in 2004.

Fiduciary Funds

The City maintains fiduciary funds for the assets of the City of Seattle Employees' Retirement System (SCERS), the Firemen's Pension Fund, the Police Relief and Pension Fund, the S.L. Denny Private Purpose Trust Fund, and various agency funds. Total net assets of the combined fiduciary funds at the end of 2005 were \$1.803 billion. SCERS represents 99.4 percent of that amount.

SCERS assets that are held in trust for the payment of future benefits exceeded its current amounts owed as of December 31, 2005 by \$1.792 billion. Net assets increased by \$107.3 million (6.4 percent) during 2005, primarily due to gains in the international equity markets and in real estate. Total revenues (additions to net assets) for 2005 were \$202.0 million, which includes member and employer contributions of \$71.9 million and total net investment income of \$130.1 million. Total expenses (deductions from net assets) in 2005 were \$94.7 million, an increase of \$5.8 million (6.5 percent) from 2004. The largest part of the 2005 increase in total expenses (deductions) was for retiree benefits which increased by \$5.0 million (6.5 percent).

At December 31, 2005, the net assets held in trust in the Firemen's Pension Fund and the Police Relief and Pension Fund for the payment of future benefits were \$8.7 million and \$2.0 million, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's final expenditure budget for the General Fund differed from the original budget due to supplemental legislation/appropriations approved during the year. In fiscal year 2005 the General Fund's original budget was \$691.7 million. That original budget was increased by \$31.8 million (4.6 percent) in supplemental appropriations after a reduction for reimbursements received for Personnel's services (a \$94.5 million reduction for reimbursements).

The most significant budget revisions are described below:

- A \$9.0 million increase to the Cumulative Reserve Subfunds, REET I and II, including Ordinance 121889 which added \$5.0 million for construction of Fire Station 10 and Ordinance 121882 adding \$2.96 million in amendments to the Capital Improvement Program budget. The Unrestricted Subfund was increased by \$2.0 million including \$1.4 million for quarterly supplemental budgets.
- The City Council authorizes the acceptance of all grant funds. If a grant is not included as a part of the adopted budget, a separate ordinance is required. In 2005 over \$22.0 million in additional grant funds were appropriated. Most of the grant funds were for public safety purposes, including over \$16.0 million in UASI/Homeland Security grants to increase the capacity of the Seattle urban area to prevent, respond to, and recover from threats or acts of terrorism.
- The Police Department budget was increased by \$15.0 million, including \$8.0 million for retroactive pay, \$2.9 million for grants, \$1.5 million in quarterly supplemental appropriations, and \$0.8 million for additional officers.

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- The Fire Department budget was increased by \$4.0 million, including \$1.0 million for Sound Transit-related projects and \$2.3 million in Homeland Security and other grants.
- At year-end 2005 actual expenditures were \$77.0 million less than budgeted. Of this amount, \$68.7 million of the budget was carried over into 2006 to cover outstanding encumbrances, grants, capital spending, and special carryovers. The balance of the expenditure budget, \$8.3 million, was lapsed. With a lapse amount of \$7.3 million, costs for the Special Employment Subfund were significantly under budget due to a delay in implementing direct fund charging. The Police Department lapsed \$3.5 million. A large portion of that was due to a change in the budgeting methodology from multiyear to annual for overtime related to the Metro Bus Tunnel project. The Judgment and Claims Subfund was able to lapse \$3.7 million due to lower-than-expected costs.

During the year budgetary revenue estimates exceeded actual revenues by \$61.0 million. While tax revenues exceeded the budget by \$48.1 million, licenses and fees exceeded budget by \$1.8 million, space rentals barely exceeded budget, and revenues from all other categories were less than budget. Of this, \$7.3 million is due to lower Special Employment Subfund fees, and \$14.5 million is from reduced health care premiums. An additional \$12.0 million is related to incomplete grant projects and is expected to be collected in the future.

CAPITAL ASSETS

The following schedule shows the City's investment in capital assets.

Table A-5 **CAPITAL ASSETS AT YEAR END, NET OF DEPRECIATION**
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
Land	\$ 372,008	\$ 363,959	\$ 67,684	\$ 64,885	\$ 439,692	\$ 428,844
Plant in Service, Excluding Land	-	-	2,647,666	2,569,331	2,647,666	2,569,331
Buildings and Improvements	1,287,114	1,256,019	55,976	58,410	1,343,090	1,314,429
Machinery and Equipment	89,191	85,354	9,108	7,466	98,299	92,820
Infrastructure	480,294	489,351	-	-	480,294	489,351
Construction in Progress	210,382	165,099	198,491	192,043	408,873	357,142
Other Capital Assets	8,240	7,775	32,896	15,117	41,136	22,892
Total Capital Assets	\$ 2,447,229	\$ 2,367,557	\$ 3,011,821	\$ 2,907,252	\$ 5,459,050	\$ 5,274,809

Capital assets for governmental activities increased \$79.7 million in 2005. Major increases include the following.

- Seattle Center capitalized \$5.9 million for various other improvements. Construction in progress decreased by \$2.0 million at the end of 2005.
- The Fleets and Facilities Department (FFD) sold the Alaska and Arctic buildings in 2005 for \$13.6 million. \$9.2 million of the proceeds from the sale was used to retire the debt related to the original purchase of the buildings. \$2.9 million of the proceeds was used for capital expenditures related to City department moves to the Seattle Municipal Tower and other leased office space. \$1.1 million of the proceeds was deposited to the Cumulative Reserve Subfund and the remainder used for staffing costs, cleanup expenses, and commissions related to the sale of the buildings. Construction in progress at December 31, 2005, was \$63.3 million, including 2005 activity of \$7.5 million in the Municipal Civic Center projects and \$18.3 million in fire levy projects, such as the Joint Training Facility, Fire Station 10, and Large Boat marine project.
- The Parks Department completed construction of the Northgate Community Center at a total cost of \$4.3 million. Additional costs of \$47.7 million were expended for various parks improvements, and a few parcels of land were purchased at cost of \$7.0 million.
- The Department of Transportation capitalized \$18.1 million for various infrastructure assets (roads, bridges, sidewalks, signs, illuminations, and others). Construction in progress at December 31, 2005, was \$83.0 million, an increase of \$43.4 million over last year.
- The Library completed construction work at several branch libraries, such as the Greenwood Library, Fremont Library, International District/Chinatown Library, Lake City Library, and Ballard Library, spending a total of \$21.8 million, and \$3.9 million was spent for land acquisition. Construction in progress at December 31, 2005, was \$29.9 million.

Capital assets for business-type activities increased \$95.2 million as follows:

- City Light capital assets increased by \$50.6 million for 2005. These increases were mainly for the hydroelectric system, distribution plant and general plant assets as well as for land and land rights. The hydroelectric improvements included the North Cascades Environmental Learning Center, generators at the Ross Dam, Gorge electrical equipment, upgrades to the water wheels and turbines at Diablo, and the Boundary rehabilitation project. Distribution plant increases were for poles, overhead conductors for capacity additions and relocations, underground conduit and conductors, Broad street substation network, Sound Transit, transformers and overhead services, underground services, network underground, meter additions, and streetlights. Major general plant assets included the Maximo work management system and fiber optic communication equipment for the Boundary project.
- Water Utility capital assets increased by \$27.2 million. Major capital outlays included burial of the Lincoln Reservoir, an above-ground reservoir that was covered to improved security of the drinking water system; installation of new direct service meters and replacement meters; improvements to various distribution water mains; upgrades to numerous computer systems; purchase of heavy equipment used in maintaining the water distribution and transmission systems; road improvements at the Cedar River Watershed; and strengthening supports of the West Seattle pipeline system. The construction work in progress ending balance at December 31, 2005, totaled \$78.2 million. This included water system rehabilitation work; business and technology infrastructure upgrades; continuation of pipeline protection work, pipeline improvements, seismic upgrades to buildings and standing water tanks and safety measures at the dam; and rebuilding for Sound Transit, the Water Operations Control Center, and the Joint Training Facility.
- Drainage and Wastewater Utility capital assets increased by \$23.1 million. Major capital improvements included completion of a joint project with King County to improve Combined Sewer Overflow (CSO) capacity in the South Lake Union area, rehabilitation of sewer pipes, upgrades to CSO facilities to increase storage and optimize system operations, and heavy equipment purchases. Major projects still in progress at December 31, 2005, include the High Point Natural Drainage System project and the Pinehurst Natural Drainage System project.
- Nonmajor funds capital assets increased \$3.8 million. Capital outlays in the Solid Waste Fund included the replacement of compactors at the South and North Recycling and Disposal Stations. Various equipment purchases were also made by Solid Waste as well as the Department of Planning & Development.

More detail about the City's capital assets is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At the end of fiscal year 2005 the City had \$3.443 billion in outstanding bonded debt, compared to \$3.574 billion in 2004. This represents a decrease of approximately \$131.0 million (3.7 percent).

In 2005 the City issued general obligation bonds to finance various capital improvement projects, including the Central Library garage and City infrastructure. Additional revenue anticipation notes were issued to finance ongoing capital projects for the Solid Waste Utility. The City took advantage of the prevailing low-interest rates to improve cash flow by refunding three series of general obligation bond issues and issuing a series of Water revenue bonds for a total new issue of \$211.7 million. By refinancing the debt the City will save \$23.6 million in principal and interest over the next 23 to 25 years. Additionally, the City defeased \$9.1 million limited tax general obligation bonds (LTGO), which included portions of the 1998, Series B, Refunding bonds (\$0.6 million) and the 2002 Improvement and Refunding bonds (\$8.5 million).

The City's bond ratings remain the same as in the previous year. The City's unlimited tax general obligation bonds are rated Aaa by Moody's Investors Service, AAA by FitchRatings, and AAA by Standard & Poor's. The City's limited tax general obligation bonds are rated Aa-1 by Moody's Investors Service, AA+ by FitchRatings, and AAA by Standard and Poor's. The City maintained its high bond ratings on its Light, Water, Drainage and Wastewater, and Solid Waste revenue bonds.

The City's limited and unlimited general obligation debt is capped at 7.5 percent of assessed value by state law. The 2006 assessed value for the City is \$95.7 billion. At year-end 2005 the net outstanding general obligation debt of the City that includes bonds, leases, compensated absences net of sick leave, and guarantees of indebtedness amounted to \$993.0 million, well below the limit of \$6.2 billion. Within the 7.5 percent limitation, state law restricts outstanding limited tax general obligation bonds to 1.5 percent of assessed value. At year-end 2005 the net outstanding limited tax general obligation was \$799.0 million.

The City is self-insured for workers compensation and for most health care costs. The City carries general liability insurance with a self-insured retention. For these claims, including those incurred but not reported, the City recognized a total liability of \$91.0 million at the end of the year. In addition, City utilities recorded \$27.9 million in estimated environmental liabilities. At the end of 2005 City Light had \$25.9 million in liabilities related to its purchased power commitments. Other obligations were accrued compensated absences and other notes and contracts. The other notes and contracts included draws from the State's Public Works Trust Loan Program which are serviced with revenues from two

participating City departments, one with a governmental-type fund and another whose activities are reported in two of its business-type funds.

More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Seattle's 2006 budget reflects vastly improved regional economic conditions following the lengthy downturn that began in 2001. The Puget Sound area's economy started to improve in early 2004, and very strong employment growth began in the fourth quarter. The region is now growing faster than the rest of the state or the nation. Approximately 85 percent of the jobs lost in the recession had been recovered by the end of 2005, and forecasts call for continued employment growth through 2006.

Strong growth in employment and personal income has added to the City's tax revenues, allowing some budget cuts taken in the last few years to be restored. The 2006 budget focuses on a mix of one-time investments and ongoing additions to basic City services, such as police and fire staffing, transportation infrastructure, and human services programs. Revenue estimates continued to increase throughout the fall of 2005, allowing the City to add further funding for libraries, human services, and transportation in the adopted budget.

General Subfund: Revenues are projected to grow at a rate of 2.0 percent in 2006. At 29.1 percent, property taxes continue to be the largest source of General Subfund revenue. The property tax forecast assumes no major policy changes and is projected to increase by the annual 1.0 percent growth limit plus new construction. The retail sales tax is expected to contribute 18.3 percent of the total General Subfund revenues. After several years of decline, the retail sales tax showed improvement in 2004 and strong growth in 2005 but is projected to slow down in 2006. Similarly, an improved economy boosted B&O tax revenue in 2005. 2006 is expected to increase at a slower pace. Approximately 18.6 percent of General Subfund revenue is expected to come from the B&O tax. In 2005 there was a large increase in the utility tax revenue collected from the City utilities. These increases resulted from the City Council's decision to raise the utility tax rates effective for 2005 for all of the City utilities except City Light.

About 184 general government full-time-equivalent positions were added in the 2006 budget.

Utilities: Seattle City Light adopted new financial policies in 2005 that will gradually reduce the utility's reliance on debt to finance its capital program. The Department is undergoing a thorough review of its revenue requirements and rates over the next six months, culminating in a rate proposal in early summer 2006.

The Seattle Public Utilities (SPU) is continuing its asset management approach and is broadening the focus to include operational practices. This new approach has led to significant reductions in project costs and utility revenue requirements. SPU intends to submit either financial policy changes or rate proposals for all its utilities in 2006.

Financial Contact

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about the report, please contact the City of Seattle, Department of Executive Administration, Accounting Services Division, P.O. Box 94669, Seattle, WA 98124-4669 (Telephone 206-386-9124).